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## Trust in ISAs: the role of foreign partners' knowledge transfer, senior management commitment, goal congruity and control

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### Abstract

International Strategic Alliances (ISAs) are considered one of the most powerful mechanisms for combining competition and co-operation and for industrial restructuring on a global basis. Despite the fact that ISAs often fail to meet the goals set by the partners, their use has been rapidly increasing over the past two decades. A number of Greek enterprises seeking to expand their business activities abroad have formed ISAs with local partners, mostly in South East Europe. There is a general agreement on the role of trust on ISAs' successful operation and positive outcomes. Furthermore, the construct of trust becomes even more important in the volatile environment of South East Europe. In this paper, three propositions are developed in order to investigate the impact of senior management commitment, control mechanisms and goal compatibility on trust among ISA partners. In addition, we suggest that trust has a positive impact on effective knowledge transfer from the partners to the ISAs. The objective of this paper is to lead to a better understanding of the above factors and to set the ground for future empirical research on the importance of trust in ISAs.

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### 1. Introduction

In today's competitive environment firms enter in International Strategic Alliances (ISAs) in an effort to gain access to foreign markets. Strategic alliances are defined as horizontal cooperative agreements between two or more firms from the same stage of the value chain aimed at jointly developing, manufacturing, and/or distributing

products (King et al., 2003; Zollo et al., 2002; Jiang et al., 2015). An alliance is considered international when at least one of the partner - firms originates from a country different than the one that the alliance determines as a target market (Aldakhil & Nataraja, 2014). As Chen et al. (2014) note, strategic alliances are important for firms to obtain outside knowledge and create a competitive advantage. However, despite the increased academic interest on strategic alliances, Bell et al. (2006) argue that there is a gap in literature, in regards to the various aspects of cooperation among alliance partners. An important determinant of the quality of relations among alliance partners is trust. In this paper, three key factors related to the development of trust among ISA partners are identified. More specifically, the impact of senior management commitment, formal control mechanisms and goal congruity on the development of trust among ISA partners is analyzed. In addition, the relationship between trust and effective knowledge transfer is examined. Finally, four propositions on the impact of the above factors on trust are presented.

Regarding senior management commitment to the ISA, it is suggested that the more committed senior managers are, the harder they will work towards the development of an environment of trust, in which mutual understanding and collaboration will prevail. Yoshino and Rangan (1995) note that a strategic partner will measure the level of importance a partner attaches to the alliance by the level of involvement and commitment demonstrated by senior executives in that partner's camp. When partners sense that their senior managers share a similar level of commitment to the alliance, the potential for trust is significantly enhanced (Jennings et al., 2000).

There is an ongoing debate in the literature regarding the relationship between trust and control in ISAs. Many researchers view trust and control as substitute factors (Ring & Van de Ven, 1994; Zaheer & Venkatraman, 1995), while others consider this relationship to be supplementary (Das & Teng, 1998; del Mar Benavides-Espinosa & Ribeiro-Soriano, 2013; Li, 2002). In this paper, the second point of view is adopted; it is suggested that in ISAs the establishment of formal control mechanisms with implicit and explicit rules makes partners less skeptical about each others' behavior and actions, leading to a higher level of trust among them.

Partners' goal congruity is a very important factor for trust building in ISAs. The more similar the partners' goals are, the higher the level of trust among them will be. When partners have similar expectations from their participation in ISAs, they will work closely with each other to achieve congruent goals; as a result the level of trust between them will increase. Goal congruity helps reduce uncertainty about the other party's behavior and leads to personal attachment in ISAs, thereby increasing trust (Luo, 2001). Ren et al. (2009) also believe that similar goals lead to personal attachment and promote trust and collaboration.

Furthermore, trust is viewed as a critical driver of effective knowledge transfer because it eases communication among parties: when trust exists, the recipient is more likely to be open and receptive to the knowledge offered by another (Inkpen & Tsang, 2005). Trust has emerged as one of the most important factors regarding knowledge transfer from Greek enterprises to their International Joint Ventures (IJVs) (Rotsios et al., 2014) which are a major type of ISAs (Kwon, 2008). According to the findings of their research in IJVs that Greek firms are partners, the greater the level of trust between partners, the more effective knowledge transfer is. The more Greek firms trust their alliance partners, the less reluctant they become to share their knowledge with their partners.

## 2. Hypotheses Development

### 2.1. Senior management commitment

Commitment reflects a partner's positive valuation of a collaborative relationship. It can be described as the willingness of alliance partners to exert effort on behalf of the ISA relationship (Mohr & Spekman, 1994). Many scholars have focused on the effect of commitment on ISA performance and a positive relationship has been empirically supported (Demirbag & Mirza, 2000; Kwon, 2008; Nakos & Brouthers, 2008). For commitment to be present, partners need not only to express their long – term interest in the relationship, but need to take affirmative actions to demonstrate their willingness to act on their promise. One form of behavioral commitment involves commitment of resources to the alliance (Cullen et al., 1995). For instance, Isobe et al. (2000) demonstrated that resource commitment to technology transfer has a positive impact on the perceived economic performance of ISAs. Child and Yan (2003) also examined commitment in terms of capital investment, new facilities and operational inputs and found a positive relationship between the quality of resource commitment and perceived economic growth of ISAs. On the other hand, committed partners in an IJV relationship also opt for long – term gain in their

collaboration (Mohr & Spekman, 1994). For example, Nakos and Brouthers (2008) demonstrated that the parent's long – term orientation or commitment toward the ISA is positively related to the parent's perceived benefit from of the ISA. Tsang (2002) also found a positive relationship between the parents' overseeing effort and attention to the ISA and management involvement with the parents' knowledge acquisition. Besides looking at the direct relationship between commitment and ISA performance, some studies have investigated the mediating effect of commitment on the relationship between other ISA performance related factors like trust or conflict and performance (Cullen et al., 1995; Nakos & Brouthers, 2008). Luo (2002a) suggests that the positive link between trust and financial performance is stronger when commitment is high.

Mutual partner commitment reduces uncertainty and provides the foundations of an open and honest communication among them (Muthusamy & White, 2005). When both parties commit their resources, they learn about each other and develop new skills and competencies. Committing time, resources, personnel and physical assets can result in more active involvement between individuals within the alliance and can eventually enhance the development of trust (Muthusamy & White, 2005). When all partners perceive that their senior managers share a similar level of commitment to the alliance, the potential for trust is significantly enhanced (Howarth et al., 1995; Lorange & Ros, 1991; Yoshino & Rangan, 1995; Jennings et al., 2000). Trust longevity is maintained only when each partner is committed through the investment of time, knowledge and resources to the ISA (Lewicki & Bunker, 1996). Commitment leads to better cooperation and levels of trust among partners and decreases opportunistic behavior (Doz, 1996). Similarly, Madhok (1995) argues that mutual commitment leads partners to operate towards the accomplishment of common objectives and not their own only. Moreover, when partners are committed to the alliance they are willing to work toward objectives and goals mutually agreed and determined (Das & Teng, 1998).

Reciprocal commitment is not only a source of new trust but also strengthens the functions of established trust in promoting alliance adaptation and performance. With continuous reciprocal commitment, high trust is maintained by which synergies from cooperation are more likely to be created and sustained (Zaheer et al., 1998). Luo (2002a) argues that trust enhances ISA performance and it is facilitated by numerous factors. Of these factors, reciprocal commitment is very important since it has a positive impact on the trust and performance relationship and enhances the development of a feeling of trust among ISA members. Hence, the following main relationship can be proposed:

*Proposition 1: Senior management commitment will have a positive impact on the development of trust among ISA partners.*

## *2.2 Establishment of formal control mechanisms*

Previous literature has displayed two comparative presumptions on this point. The first view assumes a substitute relationship between control level and trust level. Some researchers argue that since trust conveys positive expectations regarding a partner's intentions or behavior, it can improve the efficiency of interorganizational relationship governance by substituting, at least in part, for formal contracts (Jeffries & Reed, 2000; Zaheer et al., 1998). According to previous studies, partner trust reduces the need to depend on highly specified contractual agreements (Madhok, 1995; Gulati, 1995; Dyer, 1997; Langfield-Smith & Smith, 2003). In other words, the more there is of trust, the less there is of control and vice versa (Das & Teng, 1998). The implied logic is that, because trust involves a positive attitude about others' cooperative motivations and behavior, the higher the level of trust, the less need for control. Control is only needed when adequate trust is not present (Zaheer & Venkatraman, 1995; Ring & Van de Ven, 1994).

The second view takes trust and control as parallel concepts; the two combined will enhance the alliance's efficient governance and management. Hence, empirical evidence regarding the relationship between trust and contract specificity is equivocal and there are studies which show contract specificity increasing along with partner trust, suggesting the two may complement each other rather than substituting one another as governance mechanisms (Poppo & Zenger, 2002; Fryxell et al., 2002; Luo, 2002a; Connelly et al., 2012). Das and Teng (1998) suggest that: "a higher trust level does not automatically dictate a lowering of the control level and vice versa". They are supplementary in assisting the parent firm achieve its goals. Li (2002) adopted this view to describe the relationship between trust and control in Japanese – Chinese IJVs. In his study he simultaneously examined control, trust and IJV

performance on an empirical basis, and showed that trust and control are significant supplementary factors for IJV performance.

Contracts with implicit and explicit rules establish a formal basis of assurance for mutual trust and provide an institutional basis for future cooperation as they decrease risks associated with alliance participation (Poppo & Zenger, 2002). Reurer and Ariño (2007) argue that, over time, formal contracts provide formal assurance that complements the informal assurance of trust by creating a structure for coordination, facilitating processes and establishing safe boundaries for knowledge transfer (Li et al., 2010). Formal control mechanisms, by establishing the framework for knowledge transfer in combination with trust, promote greater acquisition of knowledge than trust alone. In addition, Aulakh et al. (1996), in their empirical research on ISAs, concluded that control enhances trust. Zucker (1986) also argued that contracts are a rational basis for inter-organizational trust.

Similarly, Das and Teng (1998) suggest that trust and control are complementary and that control may foster trust. The reasoning is that control sets up the formal rules and the standardized procedures that build the foundations for trust to develop (Sitkin, 1995). Child and Möllering (2003) further argue that bringing control in an uncertain context (e.g., China) helps establish familiarity and predictability, which are the necessary conditions for trust development. Li et al. (2006) examine active trust development in ISAs, and more specifically in IJVs in China, and their results reveal a strong positive relationship between control and trust. In such an uncertain and complex environment, control mechanisms can be helpful for the development of a common knowledge base that facilitates trust development. Furthermore, tight control facilitates coordination, enhances knowledge transfer and leads to better alliance performance (Kumar and Seth, 1998).

In emerging economies like the ones in South East (S.E.) European countries, the business environment is highly uncertain for foreign firms. Regulations and rules based on control, not only provide stability and confidence in the relationship (Powell, 1996), but also enhance the development of trust (Sitkin, 1995). Moreover, del Mar Benavides-Espinosa & Ribeiro-Soriano (2013) mention the importance of formal control mechanisms like protocols and periodic checks, which restrict what partners can ask each other, define the limits between cooperation and competition and enable them to resolve problems in real time. This control system strengthens relations among the partners and creates a greater level of trust (del Mar Benavides-Espinosa & Ribeiro-Soriano, 2013). Additionally, formal contracts specify, among others, tasks, responsibilities and timeframes (De Jong & Woolthuis, 2008). As a result, alliance partners obtain information on each other's competences and intentions; this shows that formal control mechanisms and trust are parallel concepts that complement one another. Hence, the following relationship is proposed:

*Proposition 2: The establishment of formal control mechanisms will have a positive impact on the development of trust among ISA partners.*

### 2.3 Goal congruity

Goals refer to the parent companies' specific objectives and expectations from the establishment and operation of ISAs. Goals include performance standards, quotas, work norms or deadlines to provide a direction and beneficial effect on the organization's achievement (Erez & Kanfer, 1983). Goal congruity refers to the extent to which foreign and local parents have similar strategic objectives about the direction and evolution of the ISA. The ongoing compatibility of parents' objectives is a significant and positive predictor of ISA performance (Kogut, 1988). For instance, Yeheskel et al. (2001), as well as Boateng and Glaister (2002), observed a positive relationship between goal similarity and perceived ISA effectiveness; this relationship to a large extent is triggered by trust. Goal congruity helps reduce uncertainty about the other partner's behavior and leads to personal attachment and to the development of trust in ISAs (Luo, 2001). On the other hand, differences in parent companies' goals may lead to opportunistic and antagonistic behavior (Luo & Park, 2004; Luo, 2001; Williamson, 1985) and generate conflict (Luo, 2001). As a result, goal congruity may influence the partners' satisfaction and improve the quality of their relationship. However, goal characteristics may also directly affect ISA survival. As Luo (2002c) suggests, this relationship needs to be further explored, because some ISAs may intentionally operate for only a limited period of time. It is important to note that the partners' initial goals need to adjust to market changes for the alliances' long term survival (Ren et al., 2009). Having common goals and objectives are important for creating and sustaining trust

between partners in an ISA (Thuy & Quang, 2005). However, often parents have different goals when establishing ISAs, some of which might be in conflict with each other (Yehekel et al., 2001). Regardless of the differences between targets and goals, partners must be determined to cooperate with each other in their IJVs (Khorassani et al., 2011).

Goal congruity has a positive, long term effect on ISA performance. According to Kwon (2008), strategic fit implies goal congruity among IJV partners. When there is such a fit, both partners are expected to have congruent objectives and goals from their alliance participation. It should be noted that Lavie et al. (2012), in their analysis of strategic fit in alliances, in addition to goal congruity, they also include factors such as compatibility of technologies, complementarity of skills and capabilities and similarity of the alliance target market. Non compatible strategic goals among alliance partners could create confusion and lead to misunderstandings among them (Zeira et al., 1997). Moreover, previous research has showed that common values and objectives among partners will facilitate the development of trust and commitment in alliances (Hunoldt & Bausch, 2009; Morgan & Hunt, 1994). Ren et al. (2009) also conclude that similar goals lead to personal attachment and promote trust and collaboration within ISAs. For instance, a strong positive association between a strategic bond and trust was detected in the case of alliances formed by US and Japanese firms (Johnson et al., 1996). Furthermore, Luo (2001), in his empirical research of 282 international cooperative ventures (ICVs) in China, found that goal congruity facilitates the development of personal attachment between the partners, which in turn stimulates ICV performance and trust development. Hence, the lack of sufficient number of empirical studies that explore the impact of goal congruity on trust reveal that this relationship needs to be further explored and the following relationship is proposed:

*Proposition 3: Goal congruity will positively affect the development of trust among ISA partners.*

#### *2.4 Trust and effective knowledge transfer*

The importance of knowledge transfer across borders has increased due to the characteristics of the economic and business environment (Inkpen, 1998). Park et al. (2012) suggest that the transfer of knowledge from partners to their alliances, especially the ones that operate in emerging economies, facilitates the development of competitive advantage. According to Park et al. (2015: 89), although knowledge transfer is not the only motive for alliance formation, “abundant research has shown that effective knowledge transfer is a critical factor for alliances’ survival and performance”. Knowledge transfer in alliances is a complicated and difficult process. Researchers have analyzed mainly knowledge characteristics as factors affecting knowledge transfer success. However, effective knowledge transfer does not depend solely on knowledge characteristics, but on other factors as well, one of them being the quality of the relationship between partners (Minbaeva, 2007).

Wahab et al. (2011) found a strong positive relationship between mutual trust among IJV partners and inter-firm technology transfer to local partners. Their results indicate that there is a positive relationship between mutual trust and the degree of knowledge transferred to the IJVs. They concluded that low levels of trust discourage openness and the sharing of valuable information; as a result, the process of knowledge transfer is hindered. Similarly, Pak and Park’s (2004) findings indicate that disagreements among partners make them more protective of their knowledge and less willing to share it and to give opportunities to their partners to access it (Dhanaraj et al., 2004). On the contrary, high levels of mutual trust increase the opportunities for closer and more effective collaboration among alliance partners.

The above findings are in accordance with previous ones that have reported similar results and concluded that trust leads to a feeling of reliability and allows partners to be more open to the transfer of knowledge (Inkpen & Tsang, 2005). Similarly, Perez-Nordtvedt et al. (2008) argue that the quality of the partner relationship is important for cross border knowledge transfer and that trust facilitates the flow of knowledge and enables partners to work effectively (Dhanaraj et al., 2004; Hansen et al., 2005). On the contrary, Park et al. (2012) found no relationship between relational capital stock (which includes trust) and knowledge transfer. They note that their findings are in accordance with Lane et al. (2001), who found no relationship between trust and knowledge transfer and suggested that trust becomes important only when partners demonstrate an opportunistic behavior. Based on the above, and taking under consideration the peculiarities and volatility of the S.E. European economic, political, legal and social environment, it is proposed that:

*Proposition 4: The level of trust among ISA partners will positively affect effective knowledge transfer to the ISA.*

### 3. Discussion and conclusion

During the past two decades more firms have chosen to participate in strategic alliances in order to lessen the uncertainty of the economic and social environment and to gain competitive advantage. However, the complexity of the relationships in strategic alliances has resulted to high failure rates; thus more research is needed in order to better comprehend the nature of these collaborative relationships.

This paper has focused on the construct of trust among ISA partners. Trust is regarded as one of the most important factors for ISA success and it becomes more important in the often volatile social and economic environment in which most Greek ISAs operate. The first objective of this paper is to review and present some key parameters related to trust development. The recent findings in the literature regarding the impact of a) senior management commitment, b) establishment of formal control mechanisms and c) goal congruity on the development of trust among alliance partners, are analyzed. Furthermore, the mixed results of the impact of trust on the transfer of knowledge in ISAs are reviewed. The second objective is the development of four propositions based on the literature review to be tested at a later stage.

It is argued that senior management reciprocal commitment and goal congruity will have a positive impact on the development of trust among ISA partners. In addition, it is proposed that the establishment of a formal control mechanism will positively affect the feeling of trust among alliance partners. The contradictory results of the impact of trust on effective knowledge transfer underline the need for further examination and it is suggested that trust will positively affect the transfer of knowledge to the ISAs.

There is a lack of empirical evidence for strategic alliances in S.E. Europe. This paper sets the basis for research on the construct of trust in ISAs with at least one Greek partner. The factors analyzed in this paper will be investigated in the S.E. European context, which is characterized by volatility. This is a useful contribution to existing literature since the specific region and country conditions do not allow for generalization of research findings (Park et al., 2015). A questionnaire will be designed and distributed to Greek firms which participate in ISAs. The findings of the propositions developed will further build on the existing knowledge on trust among alliance partners and of ISA partner relationships. In addition, a clear understanding of the outcomes by practitioners will lead to more efficient ISA management and serve as a useful tool for overall alliance success.

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